

Message Text

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PAGE 01 SAN JO 01989 01 OF 02 170151Z

63/46

ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AGR-05 COME-00 TRSE-00 OMB-01

TAR-01 CIEP-01 CEA-01 SS-15 NSC-05 SP-02 L-02 H-02

PRS-01 PA-01 USIA-06 CIAE-00 INR-07 NSAE-00 STR-04

FRB-03 SIL-01 LAB-04 SAB-01 /077 W

----- 067952

R 161400Z MAY 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 0212

INFO AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMCONGEN GUAYAQUIL

AMEMBASSY TEGUCIGALPA

LIMITED OFFICIAL USE SECTION 1 OF 2 SAN JOSE 1989

C O R R E C T E D C O P Y (TO TEXTS NBRD PARAS FOUR AND FIVE)

E.O. 11652: N/A

TAGS: ETRD CS

SUBJECT: BANANA SITUATION

REF: SAN JOSE 1822

SUMMARY:

BANANA PRODUCERS HERE ARE IN AGREEMENT THAT AT THE
CURRENT HIGH U.S. BANANA PRICE THEY CAN PAY COSTA
RICA'S INCREASED EXPORT TAX, BUT THE PRICE IS EXPECTED
TO FALL AND AT THAT TIME COSTA RICA WILL FACE A CRISIS.
MANY BANANA COMPANY OFFICIALS HERE BELIEVE THAT COSTA
RICA'S SUDDEN SWITCH TO A HARD LINE POSITION ON LXE
BANANA TAX REFLECTED THE INFLUENCE OF TORRIJOS, BUT
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PAGE 02 SAN JO 01989 01 OF 02 170151Z

THE EMBASSY BELIEVES THAT THE CHANGE IN COSTA RICAN

ATTITUDE WAS A MORE A REACTION TO THE HONDURAN SCANDAL.
END SUMMARY.

1. JACK LOEB, PRESIDENT OF BANDECO (DEL MONTE), IS IN AGREEMENT WITH VIEW EXPRESSED BY UNITED BRANDS (REFTEL) ON CURRENT BANANA TAX SITUATION, THAT IS, THAT COMPANIES CAN AFFORD TO PAY THE HIGHER TAX FOR THE MOMENT BECAUSE OF THE RECORD HIGH PRICE BEING RECEIVED FOR BANANAS IN THE U.S. MARKET AT THIS TIME (\$5.50 PER BOX CIF). LOEB EXPECTS THE PRICE TO FALL IN JULY BUT HOW MUCH AND HOW FAR DEPENDS, HE TOLD EMBOFFS, ON WHETHER OR NOT HIS COMPETITORS UNITED AND STANDARD CONTINUE TO INCREASE THEIR PURCHASES IN ECUADOR.

2. LOEB BLAMES EXCESSIVE INFLUENCE OF PANAMANIAN STRONGMAN TORRIJOS FOR COSTA RICAN DECISION TO IMPOSE HIGHER TAX. HE NOTES, AS DID UNITED REP, THAT PANAMA, IF IT TAKES OVER THE BANANA PLANTATIONS, WOULD IN EFFECT HAVE NO TAX BECAUSE IT WOULD BE PAYING IT TO ITSELF. AS ECUADOR, GUATEMALA, AND NICARAGUA HAVE NO TAX, AND HONDURAS HAS ONLY A 30 CENT TAX, COSTA RICA IS IN A VERY VULNERABLE POSITION WITH A 45 CENT TAX ON PRODUCTION FROM A COMPANY'S OWN PLANTATIONS PLUS A 55 CENT PRICE INCREASE ON BANANAS BOUGHT FROM INDEPENDENT GROWERS. (SECOND QUALITY BANANAS ALSO MUST PAY THE 45 CENT TAX BUT THE PRICE TO INDEPENDENTS FOR SECONDS IS ONLY \$1.35). LOEB ASSERTS THAT HIS COSTS ARE NOW IN THE NEIGHBORHOOD OF \$4.50 PER BOX. IF PRICES FALL BELOW THE PROFITABLE LEVEL, HE WILL STOP PURCHASES FROM INDEPENDENT GROWERS AND CUT BACK ON COMPANY PRODUCTION THAT BECOMES UNPROFITABLE.

3. LOEB IS ALSO EXPECTING AN OUTBREAK OF LABOR PROBLEMS, PARTICULARLY ON THE FARMS OF INDEPENDENT BANANA GROWERS WHO FOR YEARS HAVE PAID VERY LOW WAGES AND REFUSED TO PROVIDE HOUSING FOR WORKERS CLAIMING THAT THEY COULD NOT AFFORD TO DO BETTER. NOW, THE WORKERS WILL PRESS HARD ON THE ASSUMPTION THAT THE NEW LIMITED OFFICIAL USE

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PAGE 03 SAN JO 01989 01 OF 02 170151Z

PRICE TO GROWERS WILL PUT THEM IN CLOVER. HOWEVER, MANY OF THE GROWERS ARE INEFFICIENT AND HEAVILY IN DEBT AND WILL STRONGLY RESIST CLAIMS FOR HIGHER WAGES.

4. LOEB SAID THAT HE AND OTHER LEADERS OF THE BANANA COMPANIES HERE TRIED VERY HARD BUT WERE UNABLE TO REACH ODUBER OR OTHER TOP GOCR OFFICIALS

IN THE FINAL DAY S BEFORE THE BANANA TAX DECREE WAS ISSUED. LOEB DID PASS A MESSAGE TO ODUBER THROUGH AN EMISSARY AND LEARNED FROM THE EMISSARY THAT IT WOULD BE UNWISE TO PRESS THE MATTER AS ODUBER WAS SAID TO BE IN A HIGHLY EMOTIONAL STATE INVEIGHING AGAINST THE BANANA COMPANIES AND ALL THEIR WORKS.

5. COMMENTS: IF THE PRICE OF BANANA FALLS AS EXPECTED BACK TOTHE NORMAL PRICE RANGE, IT IS CLEAR THAT THE COSTA RICAN GOVERNMENT WILL BE FACED WITH SHARPLY FALLING BANANA SHIPMENTS AND LAYOFFS OF WORKERS. MOST HIGH LOCAL OFFICIALS CONTACTED BY EMBOFFS IN RECENT DAYS HAVE BEEN RELUCTANT TO CONSIDER THIS POSSIBILITY OR TO DISCUSS WHAT STEPS THE GOVERNMENT MIGHT THEN TAKE, BUT FINANCE MINISTER MORERA CONFIDENTIALLY EXPRESSED THE PERSONAL VIEW MAY 14 THAT THE GOVERNMENT WOULD HAVE TO REDUCE THE TAX. THIS IS IN FACT THE COSTA RICAN WAY -- TO BACK AWAY FROM MEASURES THAT PROVE TOO EXTREME, HOPEFULLY FINDING SOME PLAUSIBLE EXCUSE, SUCH AS THAT OTHER BANANA PRODUCING COUNTRIES DID NOT FOLLOW THE COSTA RICAN EXAMPLE.

LOEBS'S OPINION - THAT TORRIJOS' INFLUENCE WAS MAINLY RESPONSIBLE FOR COSTA RICA'S SUDDEN MOVE TOWARD A MUCH HIGHER BANANA TAX, WHICH IS SHARED BY MANY BANANA COMPANY OFFICIALS HERE, IS NOT SHARED BY THE EMBASSY. WE WOULD POINT OUT THAT TORRIJOS HAD BEEN TRYING ALL ALONG TO INFLUENCE COSTA RICA AND OTHER BANANA PRODUCING COUNTRIES AND THAT COSTA RICA HAD NEVERTHELESS BEEN MOCENG TOWARD A REASONABLE NEGOTIATED SETTLEMENT OF THE TAX QUESTION WITH THE CANANA COMPANIES UNTIL THE SCANDAL BROKE IN HONDURAS.
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PAGE 04 SAN JO 01989 01 OF 02 170151Z

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PAGE 01 SAN JO 01989 02 OF 02 161617Z

46

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TAR-01 CIEP-01 CEA-01 SS-15 NSC-05 SP-02 L-02 H-02

PRS-01 PA-01 USIA-06 CIAE-00 INR-07 NSAE-00 STR-04

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FM AMEMBASSY SAN JOSE

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INFO AMEMBASSY BOGOTA

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LIMITED OFFICIAL USE SECTION 2 OF 2 SAN JOSE 1989

PERHAPS, AS ODUBER HAS SAID, COSTA RICA MERELY
DECIDED TO TAKE ADVANTAGE OF A FAVORABLE MOMENT WHEN
BANANA PRICES WERE VERY HIGH, AND WHEN THE BANANA COM-

PANIES WERE IN

A WEAK POSITION BECAUSE OF THE HONDURAN
SCANDAL, TO IMPOSE A HIGHER TAX. MORE LIKELY, THERE IS
SOMETHING DEEPER INVOLVED, SUCH AS A DESIRE TO PROTECT
THE GOVERNMENT FROM POSSIBLE ALLEGATIONS THAT IT, LIKE
HONDURAS, SOLD OUT TO THE BANANA COMPANIES. CERTAINLY,
IT APPEARS TO US THAT COSTA RICA'S SUDDEN SWITCH TO A
HARD LINE ON THE BANANA TAX RELATED MORE TO THE
HONDURAN BANANA SCANDAL THAN TO ANY INFLUENCE
TORRIJOS MIGHT HAVE EXERTED.

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PAGE 02 SAN JO 01989 02 OF 02 161617Z

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Message Attributes

Automatic Decaptioning: X
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Draft Date: 16 MAY 1975
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Disposition Approved on Date:
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Disposition Date: 28 MAY 2004
Disposition Event:
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